

PERSONAL INCOME TAX WITHHOLDING — SUPPLEMENTAL WAGE PAYMENTS, MOVING EXPENSE REIMBURSEMENT — WARN ACT PAYMENTS

Supplemental Wage Payments

When supplemental wages (bonuses, commissions, overtime pay, sales awards, back pay - including retroactive wage increases, reimbursement for nondeductible moving expenses, etc.) are paid at the same time as regular wages, the personal income tax (PIT) to be withheld shall be computed on the total of the supplemental and regular wages and shall be determined as if the total of the supplemental wages and the regular wages constituted a single wage payment for the regular payroll period.

When supplemental wages are not paid at the same time the employee's regular wages are paid, you may choose one of two methods for determining the amount of PIT to withhold:

- Compute the amount of PIT to withhold based on the total of the supplemental wages and the employee's current or most recent regular (gross) wage payment. The computed tax minus the tax already withheld from the regular wages is the tax to be withheld from the supplemental wages, or
- Withhold at a flat rate without allowing for any withholding exemptions claimed on the employee's withholding allowance certificate. For stock options and bonuses, the flat rate is 9.3 percent. For other types of supplemental wage payments, the flat rate is 6 percent.

If vacation pay is paid in addition to regular wages for the vacation period, such vacation pay is to be treated as a supplemental wage payment.

Moving Expense Reimbursement

A moving expense reimbursement in connection with a move out of California is considered compensation for future services. The reimbursement would not be included

as California income because the individual is no longer considered a resident of California. The reimbursement is not subject to California PIT withholding.

If an employee receives reimbursement in connection with a move to California, the reimbursement is considered a bonus for future services to a resident and must be included as California income.

Reimbursement to employees for moving expenses to California, or for moving expenses within California, are not subject to withholding to the extent that the expenses are deductible from gross income. Deductions are allowed for reasonable costs incurred for:

- Moving household goods and personal effects from the former residence to the new residence.
- Traveling (including lodging but not meals) from the former residence to the new place of residence.

In order for these expenses to be deductible, the employee's new principal place of work must be at least 50 miles farther from his or her former residence than was his or her former principal place of work. Commuting distance between the employee's former residence and new work location must **increase** by at least **50 miles**.

The portion of the reimbursement that is not allowed as a deduction is subject to California PIT withholding.

WARN Act Payments

The federal Worker Adjustment and Retraining Notification (WARN) Act requires, in part, that employers with 100 or more full-time employees must provide a 60-day notice to their employees prior to a plant closure or mass layoff. Failure to comply with the notification requirement may result in the employer being liable for back pay to each impacted employee for each day of violation. Although not subject to unemployment insurance (UI), employment training tax (ETT), or State

disability insurance (SDI) contributions,* these payments are subject to PIT withholding and should be reported as PIT wages on the DE 6, Quarterly Wage and Withholding Report.

- If the back pay award is paid to the employee using the employee's regular pay periods, compute the tax as if the payments were regular wages, taking into consideration the employee's withholding allowances as shown on the employee's withholding allowance certificate.
- If the back pay award is paid to the employee in a single lump sum, withhold at a flat rate of 6 percent without allowing for any withholding exemptions claimed on the employee's withholding allowance certificate.

Additional Information

If you have additional questions regarding PIT withholding, contact the nearest Employment Tax Office listed in the California Employer's Guide, DE 44, and on our Internet site at www.edd.ca.gov/taxrep/taxloc.htm or call us toll-free at 1-888-745-3886.

Speech and hearing impaired persons can contact us by calling 1-800-547-9565.

*Includes Paid Family Leave (PFL) beginning January 1, 2004.

Equal Opportunity Employer/Program. Auxiliary services available to individuals with disabilities.